"A COMPARATIVE STUDY OF GROWTH OF TRADITIONAL INSURANCE POLICIES AND UNIT LINKED INSURANCE POLICIES IN INDIA"

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TITLE:

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ABSTRACT:

India had been under the colonial rule of British rulers for more than two hundred years. British rulers did not shown any interest in the economic development of poor Indians. In spite they have stolen Indian economy in all the ways. Indian were lagging behind in capital employability because, their saving habits were not enhanced. They were concentrated in fulfilling their daily needs but not on saving money for future needs.

In recent times the picture has been changed. In the 21st century Indians has changed their attitude from spending the money to saving the money for their future needs. There are various options available for saving and investing money like Bank Deposits, Post office Deposits, giving hand loans, shares, mutual funds and so on. One of the important ways of saving money to meet future financial needs is Insurance. Insurance can be classified into two i.e. Life Insurance and General Insurance. Present study is focusing on Life Insurance sector only.

INTRODUCTION:

Life insuranceis a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits.

HISTORY OF LIFE INSURANCE IN INDIA:

The history of life insurance in India dates back to 1818 when it was conceived as a means to provide for English Widows. Interestingly in those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered more risky for coverage. Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the Provident Fund Act of 1912.

By 1938 there were 176 insurance companies in our country. The first comprehensive legislation was introduced with the Insurance Act of 1938 that

provided strict State Control over insurance business. The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon.

The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born. Nationalization was justified on the grounds that it would create much needed funds for rapid industrialization. This was in conformity with the Government's chosen path of State lead planning and development.

LifeInsurance Policies tend to fall into two major categories:

1. **Protection policies (Traditional Policies)** – designed to provide a benefit, typically a lump sum payment, in the event of a specified occurrence. A common form—more common in years past—of a protection policy design is term insurance.
2. **Investment policies (Unit Linked Insurance Policies)** – the main objective of these policies is to facilitate the growth of capital by regular or single premiums.

CONCEPT OF TRADITIONAL INSURANCE PLANS:

Traditional insurance plans provide multiple benefits like risk cover, fixed income return, safety and tax benefit. Traditional Insurance plans are the oldest plans and cater to individuals with a low risk appetite. Traditional insurance policies provide the sum assured and a guaranteed or a vested bonus at maturity. These plans take a limited exposure in high risk equity and hence the downside probability is also low. These plans are suitable for the purpose of tax planning. The Traditional Insurance Policies may be..

a) Term Insurance Plans.
b) Endowment Insurance Plans.
c) Whole Life Insurance Plans.

CONCEPT OF UNIT LINKED INSURANCE PLANS (ULIPs):

Unit Linked Insurance Plan (ULIP) commonly known as a composition of Investment and Life Insurance provides an opportunity to earn a non-taxable income and transfer the financial risk at the same time. Basically, ULIP offered by various insurance companies gives investors benefit of both insurance and investment under a single integrated plan under which initially units are allotted to the customers and on

daily basis NAV (Net Asset Value) is calculated. This insurance product always is vulnerable with ups and downs in the capital market and if there is volatility in the equity market or decline in interest rates; the NAV of the fund is impacted and may show a rise or fall. Generally, ULIPs are not guaranteed unless it is any guaranteed plan from life insurer. So, there is always a risk which is borne by policyholder. Moreover there is a long list of charges taken from life insurers in order to maintain funds in comparison to Traditional insurance policies. In frequently changing business environment, life insurers also have stiff competition. A high value, satisfied, profitable customer is the main objective of Life Insurers and different companies have their unique way to approach their objectives.

HISTORICAL PERSPECTIVE OF ULIPs:

The first ULIP was launched by Unit Trust of India (UTI).With the Government of India opening up the insurance sector to foreign investors in 2001and the subsequent issue of major guidelines for ULIPs by the Insurance Regulatory and Development Authority of India (IRDAI), in 2005, several insurance companies entered into the ULIP business leading to an over abundance of ULIP schemes being launched to serve the investment needs of those looking to invest in an investment cum insurance product.

WORKING PRINCIPLE OF ULIPs:

A Unit-Linked Insurance Plan is essentially a combination of insurance and an investment vehicle. A portion of the premium paid by the policyholder is utilized to provide insurance coverage to the policyholder and the remaining portion is invested in equity and debt instruments. The aggregate premiums collected by the insurance company providing such plans is pooled and invested in varying proportions of debt and equity securities in a similar manner to mutual funds. Each policyholder has the option to select a personalized investment mix based on his/her investment needs and risk appetite. Like mutual funds, each policyholder's Unit-Linked Insurance Plan holds a certain number of fund units, each of which has a net asset value (NAV) that is declared on a daily basis. The NAV is the value upon which net rates of return on ULIPs are determined. The NAV varies from one ULIP to another based on market conditions and fund performance.

SALIENT FEATURES OF ULIPs:

1. In ULIPs a portion of premium paid by the policy holder goes towards mortality charges i.e. providing life cover. The remaining portion gets invested

funds of policyholder's choice. Invested funds continue to earn market linked returns.

2. ULIP policy holders can make use of features such as top-up facilities, switching between various funds during the tenure of the policy, reduce or increase the level of protection, options to surrender, additional riders to enhance coverage and returns as well as tax benefits.

3. Depending upon the death benefit, there are broadly two types of ULIPs. Under Type-I ULIP, the nominee gets the higher of Sum Assured and Fund Value while under Type-II ULIPs the nominee of the policy holder gets the Sum of Sum Assured and Fund Value in the event of demise of the policy holder.

4. There are a variety of ULIP plans to choose from based on the investment objectives of the investor, his risk appetite as well as the investment horizon. Some ULIPs play it safe by allocating a larger portion of the invested capital in debt instruments while others purely invest in equity. Again, all this is totally based on the type of ULIP chosen for investment and the investor preference and risk appetite.

5. Unlike traditional insurance policies, ULIP schemes have a list of applicable charges that are deducted from the payable premium. The notable ones include policy administration charges, premium allocation charges, fund switching charges, mortality charges, and a policy surrender or withdrawal charge. Some Insurer also charges "Guarantee Charge" as a percentage of Fund Value for built in minimum guarantee under the policy.

6. Since ULIP (Unit Linked Insurance Plan) returns are directly linked to market performance and the investment risk in investment portfolio is borne entirely by the policy holder, one needs to thoroughly understand the risks involved and one’s own risk absorption capacity before deciding to invest in ULIPs.

7. Investment in ULIPs is eligible for tax benefit up to a maximum of Rs 1.5 lacks under Section 80C of the Income Tax Act.

8. Maturity proceeds are also exempt from income tax. There is a caveat. The Sum Assured or the minimum death benefit must be at least 10 times the annual premium. If this condition is not met, the benefit under Section 80C shall be capped at 10% of Sum Assured while the maturity proceeds will not be exempt from income tax.

MAJOR PROVIDERS OF ULIPs:

There are several public and private sector insurance providers that either operate solo or have partnered with foreign insurance companies to sell unit linked insurance plans in India. The under mentioned are some of the Insurance Companies who are selling Unit Linked Insurance Policies in India according to the diversified needs of the customers.

1. The public insurance providers include LIC of India
2. SBI Life Insurance
3. Reliance Life
4. ICICI Prudential
5. HDFC Life
6. Bajaj Allianz
7. Aviva Life Insurance
8. Max life insurance
9. Kotak Mahindra Life
10. DHFL Pramerica Life Insurance.

REVIEW OF LITERATURE:

As far as comparative study of Traditional and Unit Linked Insurance products are concerned, a number of researches have been carried out on its diverse facts by the researchers, economists, academicians in the Indian sub continent and overseas. Different researchers have accomplished research on Traditional Insurance Plans and ULIPs from different perspectives.

According to Mitra & Khan (2012)[1] the risk factor of ULIP is directly related to stock market. The NAVs are calculated on daily basis; NAVs of the units go up and down depending upon the fund performance and factors affecting capital market. ULIPs are subject to many charges like fund management charges, mortality charges, premium allocation charges etc. It also stated that the ULIPs are more risky than traditional policies. Studies have shown that private companies are showing higher growth in ULIP as compared to traditional policies. In ULIPs, risk is borne by investor not the insurer but insurer should have a transparent method of calculating charges. Like mutual funds, switching is also applicable according to risk appetite of policyholder.

Prasad *et al.* (2009)[2] have found that in spite of various investment opportunities, ULIPs have gained more reputation among the investors. Hence their study focused on assessing the significant relation between demographic features and ULIP's feature and level of investment in ULIP.

Silender Sing and Satpal (2009)[4] In study of Customer Satisfaction in ULIPs at and Delhi, they have observed amount of the maturity of policy is most favorite factor, whereas period of surrender of the policy is least preferred variable. This consideration is important for Life Insurance Companies to plan polices and its features in future.

Karuna K. (2009)[5] Highlighted on 'Relevance of ULIPs as a good investment tool' to observe traditional life insurance plans offered by LIC took care of only the insurance needs of people. However, with the ever changing demands of customers a new product called ULIP was launched which combines the benefits of insurance, investment and tax benefits. The author observed that ULIPs were better suited to investors who have 15-20 years as their time horizon to spread the expense over the longer period and reap the benefits.

She also found in her research that the ULIPs like other products cannot claim to be a perfect financial solution. But, for an investor who invests judiciously and is ready to wait patiently, ULIPs is one good investment vehicle available in the Indian financial market.

Mr. Khanna, Member (Actuary) IRDA (2009), ULIPs are generally issued for a long duration (12-20 years) and the ups and downs in the market are natural. When the market is down it not good time to redeem the money from units, some investor see this as a good period to invest.

Sunil Dhawan (2009) Investors in the high-risk category should give priority to equity-linked products such as ELSS or ULIPs over fixed income products.

OBJECTIVES OF THE STUDY:

1. The primary objective of the study is to understand the continuous growth of ULIPs as compared to the Traditional Insurance Plans offered by different insurance providers. The other objectives of the study are as follows.
2. To study the evolution and growth of ULIPs in India.
3. To study and compare the Unit Linked Insurance Plans with that of Traditional Insurance Plans from the point of view of customer satisfaction.
4. The study aims to identify the factors that affect customer's decision while purchasing an insurance product.
5. To assess the satisfaction level of customers towards ULIP.
6. To study the risk factors involved in the ULIPs over Traditional Policies.

HYPOTHESIS AND STATEMENT OF PROBLEM:

H1. The present study is based on the hypothesis that there is a significant difference between ULIPs and Traditional Insurance Plans.

H2. It is predetermined that due to the increase in the income levels of salaried people resulted into savings and in turn the growth in ULIPs witnessed.

H3. The study is based on the assumption that, the advancement of technology, market information, government policies, the demand for ULIPs witnessed.

H4. It is also assumed that the consumers will go through various factors like risk coverage, returns, premium payable, flexibility etc., while purchasing an insurance policy.

METHODOLOGY FOR THE STUDY:

The present study is based on the data collected from both primary and secondary sources.

This study attempts to gauge the perception of the people upon ULIPs offered by different companies.

Primary data is to be collected from a random sample of customers of various insurance companies through questionnaires, schedules and personal interviews.

The study strives to describe the growth of ULIPs, hence a personal interaction is to be conducted with the Insurance Agents of various Insurance Companies to understand the tendency of customers towards ULIPs.

The secondary data will be collected from various sources like books, periodicals, statutory reports of IRDAI, websites of various Insurance Companies to understand the trends in ULIPs.

IMPORTANCE AND SCOPE OF THE STUDY:

The comparative study of Traditional and Unit Linked Insurance Plans helps the people to take a proper financial decision. It will also help the Insurance Companies to bring more qualitative insurance product in order to satisfy the customer's needs. This study is also useful to continue further research in the insurance field.

The present study will be conducted in northern districts of Telangana region. This study will concentrate on the Insurance Plans of leading insurance companies like LIC, SBI Life, HDFC Life, ICICI Pru Life.

LIMITATIONS OF THE STUDY:

The present study is going to concentrate on few Traditional and few ULIPs of above mentioned insurance companies. Only publicly available information is analyzed for the study. The outcome may be subject to change from time to time and place to place depending on the prevailing social, economical and political conditions.

PERIOD OF THE STUDY:

The present research is going to study the continuous growth of ULIPs over Traditional Insurance Plans for a period of 5 financial years, starting from 2014-15 to 2018-19.

EXPECTED OUTCOME:

Life Insurance sector is continuously growing sector and still in India large number of people are not insured and this sector has good potential to grow. As continuous increasing contribution of service sector in GDP growth of Insurance Sector will play its crucial role in future for the development of Indian economy.

In insurance industry well defined guidelines about ULIPs and increasing rationality decision making of investor increases the chances of development of ULIPs over Traditional Insurance plans.

ULIP's serves all the benefits of Mutual Funds, but at higher cost. But at the same time ULIPs also serves one of the important purposes of an investor i.e. Insurance – financial support in future in case of casualty to investors' life.

CHAPTER SCHEME:

Chapter I: Evolution of Insurance – Meaning of Life Insurance – Traditional Insurance Plans – Unit Linked Insurance Plans – Evolution of ULIPs in India.

Chapter II: Comparative study of Traditional Insurance Plans and Unit Linked Insurance Plans from the point of view of customer satisfaction.

Chapter III: Study of the factors which contributed to the continuous growth in ULIPs from 2014-15 to 2018-19.

Chapter IV: Study of the factors which determine the customer's decisions while purchasing Insurance Products.

Chapter V: Conclusion of the research. Recommendations to Insurance Companies. Advices to Insurance Customers.

Chapter VI: Schedules, Questionnaires, Graphs, Tables, Reports etc., Bibliography.

PROPOSED WORK PLAN.:

Fist Year : 1. Study of Evolutions of Insurance in India.

2. The Comparative study of Traditional Insurance Plans and ULIPs.

Second Year : Study of the factors which contributed to the growth in ULIPs.

Third Year : 1. Study of the factors which influence the customer's decisions while purchasing Insurance Products.

2. Preparation of rough draft of the research work. Presentation and dissertation of the thesis.

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